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DEPARTMENT OF EDUCATION

34 CFR Parts 600, 602, 603, 668, 682, 685, 686, 690, and 691

[Docket ID ED-2010-OPE-0004]

RIN 1840-AD02

Program Integrity Issues

AGENCY: Office of Postsecondary Education, Department of Education.

ACTION: Final regulations; revisions to preamble.

SUMMARY: On October 29, 2010, the Department of Education published in the Federal Register final regulations for improving integrity in the programs authorized under title IV of the Higher Education Act of 1965, as amended (HEA) (October 29, 2010, final regulations). This document revises the preamble discussion to the October 29, 2010, final regulations in accordance with the remand in Association of Private Sector Colleges and Universities v. Duncan (D.C. Cir. 2012).

DATES: These revisions apply to the preamble for the October 29, 2010, regulations (75 FR 66832), which were generally effective July 1, 2011.

FOR FURTHER INFORMATION CONTACT: Marty Guthrie, U.S. Department of Education, 1990 K Street, NW., room 8042,

Washington, DC 20006. Telephone: (202) 219-7031 or by email at Marty.Guthrie@ed.gov.

If you use a telecommunications device for the deaf (TDD), call the Federal Relay Service (FRS), toll free, at 1-800-877-8339.

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SUPPLEMENTARY INFORMATION:

The October 29, 2010, final regulations (75 FR 66832) amended the regulations for Institutional Eligibility Under the HEA, the Secretary's Recognition of Accrediting Agencies, the Secretary's Recognition Procedures for State Agencies, the Student Assistance General Provisions, the Federal Family Education Loan (FFEL) Program, the William D. Ford Federal Direct Loan Program, the Teacher Education Assistance for College and Higher Education (TEACH) Grant Program, the Federal Pell Grant Program, and the Academic Competitiveness Grant (AGC) and National Science and Mathematics Access to Retain Talent Grant (National Smart Grant) Programs. This document revises the preamble discussion to the October 29, 2010, final regulations in accordance with the remand in Association of Private Sector

Colleges and Universities v. Duncan, 681 F.3d 427 (D.C. Cir. 2012).

We note that the Court in APSCU v. Duncan, also remanded certain provisions of the Department's misrepresentation regulations for revision consistent with the Court's opinion. We will be publishing a separate notice in the Federal Register addressing this issue.

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Revisions to the preamble of the final rule

Current Safe Harbors

We are revising our response to the third comment under the Current Safe Harbors heading. Our discussion and response to this comment that begins in the first column on page 66874 is revised as follows:

"Discussion: The Department believes that an institution's resolute and ongoing goal should be for its students to complete their educational programs. Employees should not be rewarded beyond their standard salary or wages for their contributions to this fundamental duty.

The safe harbor in §668.14(b)(22)(ii)(E), as promulgated on November 1, 2002 (67 FR 67048), permits compensation based upon students successfully completing their educational programs or one academic year of their educational programs, whichever is shorter. However, as we discussed in the NPRM, it is the Department's experience that institutions use this safe harbor to provide recruiters with compensation that is "indirectly" based upon securing enrollments in violation of the HEA. 20 U.S.C. 1094(a)(20) ("The institution will not provide any commission, bonus, or other incentive payment based directly or indirectly on success in securing enrollments or financial aid to any persons or entities engaged in any

student recruiting or admission activities or in making decisions regarding the award of student financial assistance") In other words, because a student cannot successfully complete an educational program without first enrolling in the program, the compensation for securing program completion requires the student's enrollment as a necessary preliminary step.

This is particularly the case with short-term, accelerated programs, where the Department was advised in comments received during and following the November 2009 Negotiated Rulemaking Meeting that there is the potential for increased efforts by institutions to rely upon this safe harbor to provide incentives to recruiters. Concern over recruiters guiding students to short-term programs was not as prominent when the safe harbor was adopted in 2002 because the number of such programs was not as widespread then, having grown dramatically in more recent years. The shorter the program, the more likely the student will complete the program, thus rewarding enrollment and completion notwithstanding the student's academic performance or the quality of the program. We are also concerned that, if this safe harbor is not removed, recruiters will steer students to the shortest possible programs regardless of whether the programs are appropriate

for the students, or to an even smaller number of program options where the recruiter believes completion is most likely to be obtained. As the primary function of admissions representatives is to serve as counselors, their primary goal should be to make sure that the student is a good fit for the institution and the program, to make sure that the institution and program are a good fit for the student, and not to enroll the student if this is not the case. A decision by a recruiter not to enroll a student should be considered every bit as valuable to the institution as a decision to enroll the student, if, in fact, the student and the institution or the program are not a good match.

As discussed in the NPRM, the Department also is aware of schools that have devised and operated grading policies that all but ensure that students who enroll will graduate, regardless of their academic performance. Thus, as explained in comments received during and following the November 2009 Negotiated Rulemaking Meeting, the Department believes that retaining this safe harbor could contribute to lowered admissions standards, misrepresented program offerings, lowered academic progress standards, altered attendance records, and a lack of meaningful emphasis on academic performance and program quality. We also note

that recruiters are aware that many of the schools that would be most affected by the removal of the safe harbor have poor completion rates—approximately 10 to 25 percent.

As a result, if the safe harbor were retained, in order for recruiters to secure incentive compensation, they would likely need to enroll even more marginal students, and make even greater unfounded claims about a program, to increase the potential that some will actually complete their programs of instruction. And, of course, there is the further potential for unscrupulous actors to manipulate the process to obtain student completions, through grade or attendance manipulation.

Accordingly, this safe harbor ultimately does not benefit students, and because institutions have sufficient reasons to value student retention and completion without providing incentives to recruiters, we believe it is appropriate to remove the safe harbor.

We disagree with the commenter who stated that removal of this safe harbor is inconsistent with the Administration's goal of increasing student retention in postsecondary education. Institutions should not need this safe harbor to demonstrate their commitment to retaining students within their program of instruction.

We disagree with the commenters who indicated that incentive payments under this safe harbor have a positive effect on a student's educational experience. There is nothing about the making of incentive payments to recruiters based upon student retention that enhances the quality of a student's educational experience or makes it more likely a student will complete a program. If the program of instruction has value and is appropriate for a student's needs, a student will likely enjoy a positive educational experience regardless of the manner in which the student's recruiter is compensated, whereas retention bonuses can cause recruiters to pressure students to remain enrolled even when a student is dissatisfied with a program or is eligible for a refund of charges paid. Rather than providing a benefit by bolstering the quality of students that are enrolled, retention of the safe harbor is likely to perpetuate abuses by fostering enrollment and retention in programs that do not best reflect a student's needs or desires, but are designed to secure completion of the programs at all costs.

Finally, the removal of this safe harbor would not permit payments based on a student's employment in the field of study after graduation. Here again, the potential for manipulation and abuse is significant. The

Department's experience has shown that some institutions pay incentive compensation to recruiters based upon claims that the students whom the recruiter enrolled graduated and received jobs in their fields of study. Yet, included among the abuses the Department has witnessed, for example, is a circumstance where the institution counted a student who studied culinary arts and was working in an entry-level position in the fast food industry as being employed in his field of study. Such a position did not require the student to purchase a higher education 'credential.' As a result, we believe that paying bonuses to recruiters based upon retention, completion, graduation, or placement should be considered to violate the HEA's prohibition on the payment of incentive compensation."

We are also amending our response to the fourth comment under the Current Safe Harbors heading. Our discussion and response to this comment found in the third column on page 66874 is amended by adding the following after the second paragraph of our discussion:

"In further response to commenters' questions about whether an institution could provide incentive compensation to employees in college diversity offices who recruit minority students, we note that the HEA prohibits all direct or indirect payments of incentive compensation to

personnel or staff engaged in student recruitment and does not distinguish between incentives for personnel or staff recruitment actions that could have certain effects, e.g., recruitment of a well-qualified or diverse student body. The prohibition thus includes a prohibition on paying incentive compensation for efforts to promote diversity at an institution. The Department's objective in removing all of the safe harbors is to separate the meritorious performance of all employees from an enrollment-based compensation system, consistent with the statute's language, regardless of what the purpose of the enrollment might be.

We also wish to reiterate that the incentive compensation prohibition is designed to protect all students from receiving undue pressure to enroll or to graduate. The statute and the implementing regulations ban all compensation to persons and entities that directly or indirectly provide an incentive to encourage enrollment. The incentive compensation ban is designed, among other things, to keep students of all races and backgrounds from being urged or cajoled into enrolling in a program that will not best meet their needs. Minority and low income students are often the targeted audience of recruitment abuses, and our regulatory changes are intended to end that

abuse. It is our expectation and objective that enrollment of students, including minority students, against their best educational interests would be reduced with the elimination of improper incentive compensation.

In point of fact, there never was a safe harbor addressing minority recruitment; neither the prior regulations nor these regulations provided a change in this area. Institutions are encouraged to continue to enroll all students in programs of instruction that are designed to promote their academic achievement and occupational success. We believe our regulations encourage and support this outcome."

List of Subjects

34 CFR Part 600

Colleges and universities, Foreign relations, Grant programs-education, Loan programs-education, Reporting and recordkeeping requirements, Student aid, Vocational education.

34 CFR Part 602

Colleges and universities, Reporting and recordkeeping requirements.

34 CFR Part 603

Colleges and universities, Vocational education.

34 CFR Part 668

Administrative practice and procedure, Aliens, Colleges and universities, Consumer protection, Grant programs-education, Loan programs-education, Reporting and recordkeeping requirements, Selective Service System, Student aid, Vocational education.

34 CFR Part 682

Administrative practice and procedure, Colleges and universities, Loan programs-education, Reporting and recordkeeping requirements, Student aid, Vocational education.

34 CFR Part 685

Administrative practice and procedure, Colleges and universities, Loan programs-education, Reporting and recordkeeping requirements, Student aid, Vocational education.

34 CFR Part 686

Administrative practice and procedure, Colleges and universities, Education, Elementary and secondary education, Grant programs-education, Reporting and recordkeeping requirements, Student aid.

34 CFR Part 690

Colleges and universities, Education of disadvantaged, Grant programs-education, Reporting and recordkeeping requirements, Student aid.

34 CFR Part 691

Colleges and universities, Elementary and secondary education, Grant programs-education, Student aid.

Dated: March 18, 2013

Arne Duncan,
Secretary of Education.

[FR Doc. 2013-06656 Filed
03/21/2013 at 8:45 am; Publication
Date: 03/22/2013]